



Kentucky Retirement Systems

Investment Transaction Procedures Policy

November 5, 2014

This document is intended to identify the communications and procedures that are necessary to properly execute investment transactions for the Kentucky Retirement Systems.

The Chief Investment Officer is responsible for keeping a record of all official Investment Committee meetings. This record shall identify those subjects discussed during the meeting and shall make specific note of any formal action taken by the Investment Committee. This record will be retained by KRS as further documentation of Investment Committee actions.

Procedures for specific transaction classifications are discussed in the following paragraphs.

Equity Transactions

Equity transactions must be in compliance with the current "Statement of Investment Policy" and their written guidelines, therefore; approval of individual purchase and sale recommendations are not required as long as they are in conformance with the Investment Director's role, function and present strategy.

Investment Director shall have discretion in implementing a trading strategy which may include, but is not limited to, utilizing: primary, secondary, over-the-counter, third or fourth markets; crossing networks, and; intermarket trading systems. It shall be the responsibility of the Investment Director to ensure any necessary federal or state regulatory filing and document retention of the filings associated with the securities activities the Investment Director chooses to engage in.

It shall be the responsibility of the Investment Director to ascertain that funds will be available on settlement date before securities are purchased.

Fixed Income Transactions

Fixed income transactions must be in compliance with the current "Statement of Investment Policy" and their written guidelines, therefore, approval of individual purchase and sale recommendations are not required as long as they are in conformance with the Investment Director's role function and present bond market strategy.

Investment Director may execute transactions through primary, secondary, over-the-counter, third or fourth markets. It shall be the responsibility of the Investment Director to ensure any necessary federal or state regulatory filing and document retention of the filings associated with the securities activities the Investment Director chooses to engage in.

It shall be the responsibility of the Investment Director to ascertain that funds will be available on settlement date before securities are purchased

Cash Management Transactions

Short-term cash reserves are to be invested daily by the Investment Division. Repurchase Agreements may be initiated only with those firms that have been approved by the Investment Committee and invested in compliance with the current "Statement of Investment Policy."

Investment Manager Selection, Due Diligence, and Disclosure

All Investment Managers will be selected utilizing the procedures outlined in the Statement of Investment Policy. All Investment Managers will be Registered Investment Advisors with the SEC or qualify for one of the exemptions spelled out in the Dodd-Frank Act and specifically discussed at the approving investment committee meeting and approved by the Investment Committee.

Selection Criteria

- Experience of the firm in the management of institutional portfolios operated under the prudent person standard
- Verifiable historical performance record of at least three years in the desired strategy (may be shortened or waived depending on the strategy considered)
- Qualifications, stability, and depth of the investment professionals
- Soundness of the firm's investment philosophy and process
- Adequacy of the firm's trading, back office, accounting, reporting and client service capabilities
- Fees and other economic terms
- Legal structure and terms
- Fit within the asset class

Due Diligence

- 1) When a prospective investment manager has been identified, Investment Staff shall have at least one meeting at KRS' offices and one on-site at the prospective General Partner's offices.
- 2) Investment Staff shall document any and all formal meetings with the prospective general partner and make that documentation available upon request.
- 3) Investment Staff shall retain its respective asset class' consultant to perform due diligence on any investments that go before the Investment Committee for approval. A formal write-up of the due diligence process shall be prepared and distributed to Investment Committee members prior to the date of prospective Investment Committee approval. This write-up shall generally detail the following components of the decision making process:
 - a. Overview of the Firm
 - b. Investment Strategy
 - c. Organizational Structure and Key Personnel
 - d. Summary of Investment Performance
 - e. Investment Rationale
 - f. Investment Terms
 - g. Whether any principles of the firm have been involved in any regulatory proceedings and , if so, the details concerning same,

- h. Whether a placement agent has been involved and, if so, the identity of the agent and the details of the agreement, in accordance with the Kentucky Retirement Systems Statement of Disclosure, Placement Agents.
- 4) Investment Staff & Consultant shall make themselves available for questioning by the Investment Committee regarding any prospective investment. This time shall generally be made available to the Investment Committee at such a time a prospective investment is before the Investment Committee for approval. However, should additional time or materials be requested of knowledgeable parties, it shall be provided to the Investment Committee expediently.

Investment IMA, Guidelines, Side Letters

- Staff shall work with either approved outside legal counsel or internal KRS legal counsel on all Investment Management Agreements, Limited Partnership Agreements, and Side Letters.
- Alignment of Interests: Staff shall actively negotiate partnership agreements on behalf of KRS to ensure that the interests of the general partner are aligned with those of KRS. Staff shall endeavor to ensure that the majority of senior investment professionals within each general partner firm make substantial investments of their own personal net worth within the partnerships in which KRS invests, and that the mix of management fees and carried interest is consistent with KRS' objectives of maximizing long-term returns from the asset class.
- Special Services: Due to the complex nature of alternative investment structures and partnership agreements, Staff will retain expert legal counsel on an as-needed basis. From time-to-time, during the due diligence process private investigators may be engaged to investigate general partner principals for integrity, ethical standards, tax-related issues, etc. prior to an investment commitment. Staff may retain a post-venture distribution manager to manage common stock and other public securities distributed by its general partners, consistent with the long-term objectives of the Systems.

Disclosure Policy

- Subject to the procedures and any other restrictions applicable under the Open Records Act and KRS 61.650, the Chief Investment Officer or designee will disclose information such as the name of the funds, limited partnership investments, investment managers, and general partners that have been selected by the Systems to manage investments. Additionally, aggregate portfolio returns will also be disclosed.
- In order to comply with the prohibition on disclosure of records that contain real estate appraisals, feasibility estimates, and evaluations relative to the investment in the Open Records Act, KRS 61.650 and certain partnership agreements, the Systems will not disclose the individual underlying investments and their performance.
- KRS will disclose in its Comprehensive Annual Financial Report (CAFR) actual fees paid by asset class based on GASB instruction and guidance.
- KRS will make available to the public the management fee, performance fee or carried interest rate if applicable, and hurdle rates or preferred returns if applicable of all investment managers. It will be shown as a percentage rate and it will be based on the rate that was disclosed at the investment committee when the investment manager was approved. If staff is able to negotiate a better fee rate than what was approved at the investment committee meeting that rate will not be shown.

Signatories

As Adopted by the Investment Committee

Date: 11/5/2014

Signature: Dr Bauer

Dr. Daniel Bauer

Chair, Investment Committee

As Adopted by the Board of Trustees

Date: 12/4/2014

Signature: Thomas Elliott

Mr. Thomas Elliott

Chair, Board of Trustees